



**Subject:** Submissions to the Economics Legislation Committee  
*Treasury Laws Amendment (GST Low Value Goods) Bill 2017*

### **Global Best Practice – Using the UK model in Australia**

In the domestic market retailers have borne the responsibility for collection of GST on behalf of the government. The cost of collection has also been the responsibility of the retailer, which ultimately flows through to their customers. Compliance with the legal obligation to collect is very high due to the domestic location of those responsible for collection.

With the development of a global retail market via e-commerce and the logical extension of GST to all goods sold domestically (irrespective of their source), comes a complication; who is going to collect this tax on behalf of the government. Further, who will bear the costs and how will the government ensure compliance with our domestic laws by thousands if not millions of “sellers” operating from anywhere around the globe.

While there are several generic options being considered (and combinations) there are two key options that seem to hold the most promise, both of which have limitations

- (1) The **Logistic** (intermediary) Method: Where the logistic operators, namely freight carriers and postal services act as “gate keepers” ensuring that goods entering the country comply with GST collection requirements. The advantage of this method is that compliance will be relatively high. The operators are domestically bound and will have to comply with our laws. There are only a few key operators to deal with and therefore processing scale should reduce the effective cost of compliance and collection. The disadvantage is that they are a third party in a transaction between a buyer and a seller and therefore may not have all the information needed to assess GST. Their costs for collection and the GST payable may not be clear to the buyer during the transaction with the seller. Incorporating the costs of collection into the goods costs (via a charge) will not, as suggested, provide a competitive advantage to domestic retailers as they already incorporate their cost of collecting GST into domestic prices.
- (2) The **Vendor** Method: Where the “seller” of the item is responsible for collection of GST from the buyer and remittance to the Australian government. This method is consistent with the domestic requirements of Retailers for collection of GST but compliance is extremely difficult. The seller is not within the Australian legal jurisdiction and in most cases, has no physical assets or people within our borders. For the government to assess compliance and then to pursue those that do not comply would be expensive and in many cases futile. At best the larger international e-commerce operators would comply leaving the smaller operators with a distinct

advantage. The inclusion of marketplaces into the definition of a Vendor<sup>2</sup> will assist the government in “outsourcing” compliance to these platform operators but this will only mean that other smaller platform operators will then be more attractive to buyers and sellers and they will move, fragmenting the platform market. The current Treasury proposal is effectively a vendor method with the inclusion of intermediary marketplaces as vendors even though these operators provide introductory services for buyer and seller to negotiate/purchase items and often are not involved in ownership or movement of items nor in many cases the financial transaction (except to charge a fee).

Given the fundamental limitations of both these methods in isolation and the issue that whichever method(s) are recommended, the agent for collection (Logistics or Vendor) will claim costs are too high or that they don’t have processes to handle this for Australia, it is worth looking at an existing jurisdiction operating with a low threshold. If this jurisdiction is large enough and Australia follows then international e-commerce operators are more likely to comply and build their business models around compliance/collection.

### **UK Low Value VAT collection (£15 threshold)**

The UK VAT collection method for international deliveries (outside the EU) is worthy of consideration as a model for Australia. The system is effectively a combination of Vendor and Logistics methods. The logistics method is used if the Vendor has not collect/remitted VAT on behalf of the government. The logistics provider, as the import agent, is responsible for payment of VAT to the government and will charge the customer directly for the VAT (prior to delivery), plus a processing charge<sup>3</sup>. If the item is held by the logistics provider for a period they can also charge holding fees<sup>4</sup>.

If the international Vendor has collected/remitted VAT from its UK customers the Vendor (and/or its logistics provider) acts as importing agent and takes on the role of remittance of VAT and compliance with UK law. This then avoids the costs associated with having a third-party logistics provider acting as a collection agent for VAT.

This process is an efficient way to ensure that VAT is charged for all purchases above the £15 threshold. Compliance is ensured because the base case is that the logistics provider (import agent) is primarily responsible and answerable to the government. The major player in this respect is Parcelforce (the courier arm of Royal Mails postal service) who has a large team “Border Force” working within its international hub on behalf of HMRC(customs). International e-commerce operators will “voluntarily” collect VAT and remit to avoid the costs of having third party logistics collecting VAT and charging their customers for this and processing fees.

A recent<sup>5</sup> refinement of this process gives HMRC(customs) powers to hold Marketplaces jointly liable for its sellers with respect to VAT registration (which is mandatory for all sellers), supplying accurate information and paying the full VAT on purchases. While this process is available to HMRC it is likely that this will be a last resort against Vendors who do not comply, and use certain Marketplace platforms regularly to engage with UK customers.

Given that most major e-commerce operators already operate within the UK market and comply with the above there should be minimal changes for them to comply with a similar system in Australia. The role of Parcelforce and its charge for service model should also be favoured in Australia (via Australia Post and other logistics providers)

as it will ensure better compliance (“gatekeeper” role) and will act as an incentive for international e-commerce operators to collect and remit GST. This is an equitable model, as GST collection costs, which are currently incorporated in domestic retailers’ prices will be incorporated into international e-commerce prices either directly by the Vendor or indirectly via the importing/logistics parties. Market forces will then apply leading to the most efficient method of collection prevailing.

### **Australian adaption based on the UK Model**

#### **(1) Process**

Any overseas entity that sells to an Australian customer can register with the Australian government for the payment of GST and will then be treated in a similar way as an existing domestically registered company. When their customers parcel arrives at the border to be processed by Aust Post or the courier companies a barcode will have the ABN number of that company, and this will cause the parcel to be expedited (subject to other border protection items) through the same process that currently exists for parcels below the \$1000 LVT limit. As is usual, the ATO can audit or monitor these transactions to ensure that these registered entities are correctly collecting and remitting GST.

If the overseas entity that is selling to Australian customers decides not to register then, upon arrival, their customers parcels will go into the “slow lane” where the courier companies or Australia Post will be responsible for collection of GST directly from the customers and will charge the customer for an appropriate processing/holding cost. The customer may decide not to pay and forfeit their purchase, however, the experience in the UK market suggests that this is not usually what customers do as they lose more than they gain. They may however modify their future behaviour and avoid overseas sellers who are not registered.

#### **(2) Expected Outcomes.**

Initially the larger overseas companies selling to Australian customers will comply and register for GST in order to avoid the costs associated with a third party like Australia Post or the courier companies collecting, and charging for that service. If, as claimed by Australia Post, their collection costs are very high this will only add a further incentive for the overseas entity to register and pay GST to the government directly. The inefficiency of our Postal service will then accelerate “voluntary” registration and will consequently reduce the volume that Aust Post will have to handle in the “slow lane” thus reducing their headache.

There may remain a residual amount of smaller overseas entities that find that even though there are costs associated with collection at the border this is still cheaper than registering and paying GST/VAT etc in a variety of countries. Having this cost of collection in a dedicated logistics/postal company in Australia may in fact be cheaper for them and effectively is a service provision which if done “in house” could be more expensive. It should be noted that this is more likely to be the case with the courier companies. If, however, Aust Post is able to improve their processes this may become an economic way to collect for small entities even though the Postal Service is recouping all their costs.

### **(3) Key Stakeholders**

#### **Australia Post/Courier companies.**

This is a charge for service model so from an economic perspective the “transporters” should be able to charge what it costs for the service to the customer. This is consistent with the process that currently operates smoothly in the UK, where Parcel Force (the equivalent of Aust Post) and the courier companies, are able to charge customers directly for their collection service<sup>3</sup> and for holding costs<sup>4</sup> (where VAT has not been collected by the Vendor). The issue that has been highlighted specifically by Aust Post is a processing (under)capacity for items that end up in the “GST unpaid” lane. If this is, in fact, an issue it will only be a short term transitional one, as overseas entities will quickly adapt to this inability of Aust Post to handle their customers parcels and will then register for GST to avoid any bottleneck in capacity. Alternatively, they will utilize the courier services who appear more equipped to handle collection. Therein accelerating the market to a more efficient and effective end point of higher direct registration and payment of GST to the Australian government as well as alleviating Aust Posts “bottleneck” issues.

#### **Overseas Online retailers/marketplaces.**

The overseas entity, be it a marketplace or direct online retailer, will have 2 options available. They can choose the “transporter” model as described (and favoured) by Amazon and others where they are not responsible for collection of GST and leave that to the couriers and Aust Post. It is, however, likely that once a rational analysis is conducted by the larger players they will find it more efficient to register for GST directly and avoid not only the costs from third parties for this service but also increase the speed of service to their customers in Australia which will be a relative competitive advantage built off their scale. This will also apply to “suppliers” who act through “portals” such as Amazons marketplace or ebay etc. They have the choice to register or pay for collection services at the border. It is highly likely that the marketplace operator will then register, if the economics work for them, and charge their suppliers for this service. This will avoid the definitional issues around Marketplaces and Vendors as both will be seeking out the most cost-efficient way to comply with GST collection requirements as this proposition will capture all players by one method or the other.

## **Conclusion-Recommendation**

Australian Retailers are paying high compliance costs today to collect GST on behalf of the Australian Government .

New Legislation has been approved by parliament to collect GST for international on line purchases effective 1/7/18 , this decision by the government creates a level playing field for all retailers operating in Australia .

Whilst there are many models open to the productivity commission to meet the 1/7/18 implementation date , the U.K. Model is successful and proven , operating with a £15 LVT , Royal Mail and courier companies operate within this system today and charge a handling fee for non-compliance. eBay, Amazon and many thousands of smaller, offshore online retailers are already operating successfully today in the U.K. using this model.

We recommend that an Australian adaption of this “UK Model” to the productivity Commission for implementation.

1. Low Value Parcels task force- final report published in July 2012
2. Treasury Hybrid proposal outlined in the Treasury Laws Amendment (GST Low Value Goods) 2017 Bill
3. Parcelforce (Royal Mails courier service) charges £8/item std. £13.5 for express items
4. Parcelforce charges £5.5/parcel for 10-20days and £1.35/day/parcel every day above 20 days
5. March 2016- UK HMRC(customs) announcement